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¶1. (U) Summary. This is Volume 8, issue 32 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- Inflation: Mboweni 'Concerned'
- Manufacturing production recovered in June
- COSATU Strike Impacts Economic Activity
- 'Black Diamonds' Lose Shine
- Consumers Feeling Pain of Increasing Interest Rates
- New Freight Rail Command Center Launched
- Toyota to Acquire Full Ownership of South African Subsidiary
- Eskom Sets Aside Funds for Air Quality Safeguards at Newest Power Station - Faces Challenges over Price Hike
- Gold Fields in Safety Fix
- Local Manufacturers to Benefit from Switch to Digital Broadcasting

End Summary.

Inflation: Mboweni 'Concerned'

¶2. (U) South African Reserve Bank (SARB) Governor Tito Mboweni said that monetary authorities are concerned because inflation in South Africa is outside the SARB's 3% to 6% target band. Mboweni noted that initial supply-side pressures have expanded to include more generalized pressures. "The core inflation rate is still above the upper limit of the inflation target," he said. He scotched talk that inflation targeting was not working and should be abandoned, emphasizing that it promoted accountability in the management of the economy, and allowed for greater policy consistency and better coordination. Mboweni rejected the argument that alternative instruments could be used to fight inflation. "There is growing consensus around the world that the pursuit of price stability is in the interest of sustained economic growth and development and not in opposition to it," said Mboweni. (Beeld, August 6, 2008)

Manufacturing production recovered in June

¶3. (U) South Africa's manufacturing production rose 6.1% y/y in June

from an upwardly revised 1.1% gain in May (previously 0.7%). The rebound in the manufacturing data was surprisingly out of sync with developments in the PMI (purchasing manager index) business sub-index, which recorded a sharp decline in June to 38.7 from 47 in May. The PMI business sub-index surveys actual production and has in recent months served as a good indicator of likely manufacturing production. The South African Reserve Bank (SARB) is unlikely to view the data as an indication of overall resilience in the economy. Both retail and vehicles sales already offer evidence that consumption expenditure (which makes up about 60% of GDP) is under pressure from increased debt servicing costs and inflation. Many analysts remain of the view that a combination of weak economic activity and an improved inflationary outlook will see the SARB leave rates on hold at the Monetary Policy Committee meeting on August 14. (ABSA Capital Research, August 8, 2008.)

COSATU Strike Impacts Economic Activity

¶4. (U) The strike on August 6 by the Congress of South African Trade Unions (COSATU) over high food and fuel costs affected production activity throughout the country. In the mining sector, which had Qactivity throughout the country. In the mining sector, which had been hard hit by electricity supply disruptions earlier in the year and continues to operate with below-normal electricity supplies, the impact of the strike was mixed. Some companies reported that around 70% of their workers reported for work at some mines, while in other cases only 29% of workers went to work. The public transport system was badly disrupted, which had ripple-effects throughout most sectors of the economy. However, these effects may be mitigated by contingency plans put in place by many companies to make up for lost production. (ABSA-Newsletter, August 7, 2008)

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'Black Diamonds' Lose Shine

¶5. (U) Research shows that rising interest rates, inflation, and food and fuel prices have affected members of the emerging black middle class the most. According to a survey by the TNS Research group, 10% of the black middle class have had items repossessed in the last 12 months. Twenty percent of those surveyed said they never seem to be able to pay off their debts while half had outstanding bills with retailers. "Black diamonds are starting to feel the pinch of the credit meltdown," said the survey. The emergence of black consumers with significant spending power has been one of South Africa's proudest post-Apartheid stories. But the levels of borrowing needed to fuel a sharp rise in home and car ownership are now threatening the phenomenon. (Beeld, August 7, 2008)

Consumers Feeling Pain of Increasing
Interest Rates

¶6. (U) Evidence of a downturn is widespread as many consumers have overreached themselves and are struggling to make payments, now that the prime rate is at 15.5%. According to Johannesburg-based Aucor Auctioneers, the firm is being handed approximately 6,000 repossessed vehicles every month by banks, ranging from Aston Martins to sports utility vehicles. The impact is also being seen in the new car market. The latest figures from the National Association of Automobile Manufacturers of South Africa (NAAMSA) show that sales of new vehicles slumped by nearly 26% in June 2008, to the lowest level in more than four years. Research also shows that almost 2,000 homeowners are having their property repossessed every month. South African Banking Association Chief Executive Cas Coovadia said the biggest losers are those trying to secure a foothold at the top. "The information we receive from banks indicates that the upper class with home loans from R2-5 million ($270-$670 thousand) were the worst affected," said Coovadia. "These people have accumulated a string of expensive assets and are now

finding it hard to maintain their lifestyles," he added. According to the Bureau of Market Research at the University of South Africa, household debt surged from R290.7 million or 39% of GDP in 1998 to R1.04 billion or 48% of GDP in the first quarter of 2008. (Beeld, August 7, 2008)

New Freight Rail Command Center Launched

¶7. (U) Minister or Public Enterprise Alec Erwin inaugurated the new Transnet Freight Rail (TFR) national operation centre (NOC) in Johannesburg on August 4. The state-of-the-art facility has been modeled on operation centers run by U.S. Burlington Northern and Union Pacific rail companies. The NOC will operate 24 hours a day and provide real-time information on cargo movement, with the management of infrastructure, the rolling stock, and maintenance "under one roof" for the first time. TFR CEO Siyabonga Gama said that the NOC was central to TFR's plans to materially improve the reliability and availability of the country's rail network. Transnet CEO Maria Ramos added that the NOC was also integral to QTransnet CEO Maria Ramos added that the NOC was also integral to Transnet's "ambitious" growth targets. Transnet hopes to raise its rail volumes from 181 million tons to over 238 million tons by 2012/13, or 31.5% over the three-year period. To achieve this, the TFR's troubled general freight business (GFB) would have to grow at 6.5% a year, while iron-ore volumes would need to rise by 7.3% and coal by 3.6%. "It is critical that we get our freight system efficient," Erwin said, noting, "It's critical that we begin to shift some of the freight off the roads and back onto rail. And, it is critical that we provide a responsive and sophisticated service to the many customers in South Africa." He said that since South Africa is "a long way from the world's major markets," the efficiency of the transport sector would be crucial to ensuring that its companies remained competitive. While few road users would disagree with Erwin's sentiments, the TFR could face resistance from road haulers, who have already shown themselves to be far more agile and competitive than Transnet. There is concern that, while haulers have to compete aggressively, government policy allows TFR to remain a monopoly for years to come. The bigger Transnet group stated that

it planned to extract "synergies" from its control of South Africa's rail, ports, and pipeline infrastructure. (Business Day, July 28, 2008)

Toyota to Acquire Full Ownership
of South African Subsidiary

¶8. (U) Toyota Motor announced that it would gain full ownership of its South African subsidiary by late August. Toyota reached an agreement with its joint venture partner Wesco Investments to acquire the remaining 25% stake in Toyota South Africa, worth about R2.03 billion ($274 million). By making the South African unit a wholly-owned subsidiary, Toyota plans to boost local production, sales, and exports. Toyota South Africa sold 153,000 units last year. (Business Report, August 6, 2008)

Eskom Sets Aside Funds for Air Quality
Safeguards at Newest Power Station - Faces
Challenges over Price Hike

¶9. (U) State power utility Eskom is finalizing tenders for an up to R5 billion ($700 million) investment into flue gas desulphurization (FGD) technology for its Kusile power station (formerly known as Bravo), being built near Witbank, in Mpumalanga. This first-time deployment of FGD technology in South Africa would be used to remove sulfur from the exhaust flue gases. "Eskom is fitting FGD to the Kusile plant as an atmospheric emission abatement technology to ensure compliance with air quality standards," CEO Jacob Maroga announced on August 5. The eagerly awaited 4,818 MW coal-fired

power station will be ramped up in six 803 MW chunks between 2013 and 2017, hopefully resolving South Africa's power woes as it reaches completion. The water-intensive FGD technology was chosen in a trade-off between adding to the plant's water footprint and reducing atmospheric emissions in an area already suffering from a high level of air pollution from coal-fired power stations. Eskom has signed a letter of intent with Anglo Coal South Africa to supply the plant with 17-million tons of coal over its 47-year life. The coal would be supplied through Anglo's empowerment subsidiary Anglo Inyosi Coal, with first coal deliveries expected in 2011, well before the start-up of the first unit in 2013. Anglo Coal indicated that the coal would likely be transported by a dedicated conveyor system, consistent with the intention of the government, Eskom, and Transnet to diversify logistical solutions to relieve pressure on the province's road network. Eskom executives also completed their road show tour last week of Europe's financial capitals, touting their detailed recovery plan, including the regulator's approval of a 27% hike in electricity prices this year. (Engineering News, Mining Weekly, Business Report, August 6, 2008)

Gold Fields in Safety Fix

¶10. (U) Global gold producer Gold Fields will lose about 12% of its South African production in the current financial year after a safety check revealed that it needed to make substantial repairs to the main shaft at its 2,000-meter deep Kloof Mine. Safety is a top priority for mining groups in South Africa due to a spate of mining Qpriority for mining groups in South Africa due to a spate of mining deaths in the past year. One of the worst accidents happened in May, when a lift cable snapped at Gold Fields' South Deep Mine, killing nine workers. New CEO Nick Holland said that a review of infrastructure at the entire group's South African mines showed that the steelwork at the main shaft at 40-year old Kloof Mine had deteriorated substantially and needed to be repaired. Analysts noted that this significant closure due to maintenance backlog was unprecedented in South Africa and could generate a "knock-on" effect for more costs industry-wide, but they were generally positive about Gold Field's decision. Meanwhile, Gold Fields announced that it had switched to fully-mechanized mining at its 3,000-meter South Deep Mine, necessitating a lay-off of 1,885 workers. A National Union of Mineworkers spokeswoman said the workers refused to be redeployed to Kloof and Beatrix Mines because of "the company's poor safety record." She said, "They opted to go home rather than risk their lives there." The government has yet to publish the results of the safety audit called for by President Thabo Mbeki, which was due for

release last month. (Mining Weekly, the Weekender, Business Report, August 3-4, 2008)

Local Manufacturers to Benefit from Switch
to Digital Broadcasting

¶11. (U) Minister of Communications Ivy Matsepe-Casaburri announced a cabinet decision to approve the long-awaited Broadcasting Digital Migration (BDM) policy. The policy provides a framework for South Africa to start the migration from analogue to digital broadcasting starting November. She said the Cabinet had also approved the manufacturing of set-top-boxes (STBs), which would allow households with analogue television sets to convert the digital signal to analogue signal. Matsepe-Casaburri said the migration from analogue to digital broadcasting would boost the development of South Africa's local electronics manufacturing sector, and that a number of companies able to manufacture STBs had already been identified. The local manufacturers had the potential to manufacture up to 5.6 million STBs a year, which also created export opportunities. The installation, repair, and sale of the STBs would also create jobs. The STBs were likely to cost between R400 ($54) a box and R700 ($95) a box and the government would provide an ownership support program to fund up to 70% of the cost of an STB for about five-million of the poorest television-owning households. This would cost government R2.45 billion ($331 million) during the

three-year dual-illumination period. This funding could come from the universal service and access fund, which telecommunications companies and broadcasters contribute to. The BDM policy was in line with a decision taken by the International Telecommunication Union that all European, African and Middle Eastern countries should migrate from analogue to digital broadcasting services by 2015. In 2007, Cabinet decided that the analogue signal to be switched-off on November 2011. The Department of Communications stated that it was on track to switch-on the digital signal on November 1, 2008, and said it would provide digital broadcasting and mobile television for the 2010 FIFA World Cup. Digital broadcasting would allow for the provision of services in multiple languages, and would give the public access to government information and services. (Business Day and Engineering News, August 7-8, 2008)

BOST